

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Study Session

May 21, 2001
6:00 p.m.

Council Conference Room
Bellevue, Washington

PRESENT: Mayor Mosher, Deputy Mayor Marshall, Councilmembers Creighton, Davidson, Degginger, Lee, and Noble

ABSENT: None.

1. Executive Session

Deputy Mayor Marshall opened the meeting at 6:00 p.m. and announced recess to executive session for approximately 10-20 minutes to discuss one item of property acquisition. The study session reconvened at 6:12 p.m. with Mayor Mosher presiding.

2. Study Session

- (a) ARCH (A Regional Coalition for Housing) Recommendation for Eastwood Square

Art Sullivan, Executive Director of A Regional Coalition for Housing (ARCH), requested Council's approval of a Section 8 housing preservation project in Bellevue known as Eastwood Square. The project application has been reviewed by ARCH staff, staff from member cities, the ARCH Advisory Board, and the ARCH Executive Board. Mr. Sullivan said the preservation of Section 8 housing has been a top priority of ARCH members for several years.

The 20-year-old Eastwood Square complex contains two- and three-bedroom units located near 148th Avenue and SR 520. According to the project proposal, the King County Housing Authority would purchase the property and lease it to a partnership that would take advantage of the federal tax credit program and tax-exempt financing in order to leverage the City's resources. Mr. Sullivan said ARCH is requesting \$600,000 as a contingent loan from the City of Bellevue's Housing Fund, with repayment provisions based on the achievement of specific cash flow expectations.

Mr. Sullivan said the ARCH Advisory Board supports the project for a number of reasons including location, the preservation of Section 8 housing, and the presence of three-bedroom, family-oriented units. King County Housing Authority will play a key role as landowner leasing the property to a management partnership.

Mr. Sullivan referred Councilmembers to page SS 2-5 of the Council packet for a list of conditions recommended by the ARCH Executive Board. Project plans include a transfer of ownership in July. King County has been asked to provide a credit enhancement, which will help reduce the rate on the tax-exempt bond. A Housing Stability Fund will be established for the project in which some of the loan repayments from the private partnership will be placed in a reserve fund to be used in the future if Section 8 assistance is reduced or eliminated by the federal government.

In response to Dr. Davidson, Mr. Sullivan said there were 1,100 Section 8 units in East King County approximately six years ago. Eastwood Square represents ARCH's ninth Section 8 preservation project in the past six years.

In response to Mr. Noble, Mr. Sullivan said the lease with Park Villa, the property management partnership, would extend for 40 to 50 years. At the end of that period, King County Housing Authority would retain ownership at essentially no cost. Park Villa manages similar projects in the area and the state.

In response to Mr. Degginger, Mr. Sullivan referred to the Economic Summary on page SS 2-8 and explained the developer fee. Under the tax credit program, project applicants are entitled to include a developer fee of up to 10 or 15 percent of project costs. This increases the basis for calculating the amount of tax credit that can be raised, so a higher developer fee enables a project to receive more tax credits. Of the \$785,000 developer fee, \$400,000 would be paid at the outset of the project and \$385,000 will be loaned back to the property and paid only if there is sufficient cash flow for the project in the future. Mr. Sullivan said it is essentially a recategorization of cash flow.

In further response to Mr. Degginger, Mr. Sullivan described planned upgrades to the housing complex including the replacement of cabinets and appliances and improvements to the parking areas, tot lot, and landscaping.

Mr. Lee commended ARCH for its efforts to preserve and create affordable housing. He expressed concern, however, with the cost per housing unit for the Eastwood Square project. Referring to the Economic Summary on page SS 2-8, Mr. Sullivan said reserves are included in the cost per unit but do not represent actual expenditures at this point. Similarly, the full developer fee is included in the per-unit calculations but the actual cost of this item will be determined in part by the project's future cash flow situation. Mr. Sullivan said the units are less expensive than new construction and the King County Housing Authority successfully negotiated for a lower purchase price.

Mayor Mosher noted this project is included on the Regular Session agenda as item 8(d) for Council approval.

(b) Overview of Debt and Revenue Policy/Discussion of Utility Taxes

City Manager Steve Sarkozy noted Council's previous request for a discussion of the City's utility taxes and overall debt and revenue policies. Gary Ameling, Interim Finance Director, introduced Jesse Baloca, Interim Assistant Finance Director.

Mr. Baloca reviewed the benefits of the City's current debt policy:

1. Protects City's financial integrity.
2. Adequately provides funding to meet our capital needs and utilizes reserves for equipment and technology replacements and building maintenance.
3. Borrows for capital needs that cannot be funded on a pay-as-you-go basis. However, debt will not be issued for the maintenance of current operations.

Mr. Baloca explained that general obligation bonds are backed by the City's full faith and credit and typically require voter approval for an associated property tax levy. Revenue bonds are supported by revenues generated by an enterprise activity. The City's Aaa bond rating reflects its strong and effective debt management policy, comprehensive financial reporting, and fiscal responsibility. This rating helps the City to achieve lower borrowing costs.

Mr. Baloca said the debt limit for the City's general obligation bonds is 7.5 percent of the community's total assessed valuation, distributed as follows:

General purpose debt – 2.5 percent of assessed valuation (1.5 percent of AV can be non-voted)
Parks and Open Space debt – 2.5 percent of assessed valuation
Utilities debt – 2.5 percent of assessed valuation.

Mr. Baloca said the City's current outstanding debt is \$60 million with a remaining debt capacity of \$1.26 billion. He reviewed annual debt service requirements for existing general obligation bonds. Staff recommends continuation of the City's current debt policy.

Mr. Ameling described the City's revenue policy. The goals of a revenue policy are to ensure an acceptable and diversified mix of revenues as well as an ability to meet projected expenditure needs. Revenues are monitored on an ongoing basis to determine: 1) Do existing revenues maintain current operations now and into the future?, and 2) Are taxes and fees set at appropriate levels? Mr. Ameling displayed a bar graph of current revenue sources and noted that business and occupation tax, sales tax, and utility tax revenues are increasing at a rate that is higher than the expenditure growth rate. All other taxes are growing more slowly than the average rate of growth of expenditures.

Mr. Ameling said businesses in Bellevue declaring income of less than \$100,000 per year are now exempt from paying the City's business and occupation tax. The City also reduced utility taxes in the 1990s. Mr. Ameling reviewed a comparison of Bellevue's tax rates with other cities. Staff recommends continuation of the City's current revenue policy because it provides a well-balanced mix of revenues, favorable tax rates, and the ability to meet expenditure needs.

Moving on, Mr. Ameling reviewed Bellevue's utility tax rates:

Telephone, cellular phone	6.0 %
TV Cable	4.8%
Electric, natural gas, water, sewer, storm drainage	4.5%

He noted that telephone tax rates were reduced from a high of 6.13% in 1997 to the current 6%. The garbage utility tax rate was lowered in 1995 from 11% to 4.5%, and tax rates for all other utilities were reduced in 1991 from 4.8% to 4.5%. Bellevue initiated a Utility Tax Rebate Program in 1995 that is based on income and open to all residents regardless of age. The City also sponsors a Utility Rate Reduction Program for senior and disabled residents.

Mr. Ameling said utility tax collections totaled \$15.6 million, or 14.5 percent of General Fund resources, in 2000. Telephone and electric/natural gas tax revenues have increased in recent years as the City's population increases and as phone lines are increasingly used to utilize technology. Natural gas tax revenues are projected to exceed budget expectations in 2001. Mr. Ameling noted that Monroe, Mountlake Terrace, and Edmonds have temporarily reduced utility tax rates through the end of the year.

Mr. Ameling said staff's recommendation is to maintain the City's current utility tax rate structure. Utility tax revenues are a high growth revenue source and help the City to avoid raising property taxes. Further, the economy has slowed down and economically sensitive revenue sources such as sales tax are likely to see growth rates diminish as consumers adjust their buying habits.

Mr. Lee expressed concern regarding increasing utility rates and the impact on citizens. Mr. Ameling noted that the average annual rate of growth for the electric utility tax has been only 1.2 percent during the past five years. He explained that a temporary rate reduction would require an expenditure of staff time and approximately 60 days notice to utility providers in order to affect customers' billing statements.

In response to Mr. Noble, Mr. Ameling said the average Bellevue citizen pays approximately \$78 per year for all utility taxes combined.

In response to Mr. Degginger, Mr. Ameling said the new rate structure implemented by Puget Sound Energy this year could result in decreased tax collections by the City.

Noting increased water and storm water rates for 2001 and excess revenues in the City's budget, Dr. Davidson suggested it would be good to provide some temporary tax relief to utilities customers.

Mrs. Marshall said the excess revenues were indirectly generated by development in the City and should be used for needed projects such as a new public safety facility. She is in favor of continuing with the City's current utility tax policy. Mrs. Marshall noted that Bellevue has the

second lowest property tax rate in the state. She said maintaining a diverse tax base will enable the City to continue to avoid raising property tax rates for as long as possible.

Mr. Creighton said he shares citizens' frustrations with increasing utility rates. However, taxes are a small portion of the total bill. He noted that Bellevue administers utility services that originate with other agencies and therefore has no control over rate increases.

Mayor Mosher is satisfied with the City's current utility tax rates and agreed with Mrs. Marshall about the importance of keeping property tax rates low. Mr. Degginger is reluctant to reduce tax rates given the current uncertainty about the economy.

(c) Update on City's Participation in eGov Alliance

Mr. Sarkozy said participation in the eGov Alliance represents an opportunity for the City to improve its customer service and realize operational savings. The eGov Alliance's projects include a coordinated interjurisdictional effort to develop Internet web portal sites for building permit and inspection information and for parks registration and facility scheduling.

Chief Information Officer Toni Cramer said this is a joint project of the Planning and Community Development and Information Services Departments. Cities participating in the pilot project for building officials are Bellevue, Issaquah, Kirkland, Mercer Island, and Redmond. John Backman, PCD Administrative Services Director, provided background information on the project, which will enhance access to information for the City's customers. Ms. Cramer noted that this joint effort is more cost effective than tackling the project alone.

Ms. Cramer requested Council concurrence with the following guiding principles:

- Equity in cost-sharing is important. Bellevue is not interested in subsidizing technology development for other cities.
- Ensure that Bellevue's mission is not diluted and that roles and responsibilities are clearly defined.
- There must be a clearly demonstrable benefit to the City of Bellevue and other project participants.

Ms. Cramer requested Council approval to formalize agreements with other cities regarding the funding, management, and governance of jointly developed Information Technology applications. She noted that staff has been actively engaged in two of the eGov Alliance's pilot projects that coincide with investments approved by Council in the 2001-2002 budget: on-line permitting and replacement of the Parks Department recreation and scheduling system.

In response to Mr. Degginger, Ms. Cramer said ownership of the projects' intellectual property has not yet been decided. She noted that Microsoft has made a substantial investment in the project by donating training hours as well as 40 hours of senior technical engineering time to assist with final architectural design of the project. Mr. Degginger would like Bellevue to own the intellectual property upon project completion.

Dr. Davidson is excited about the regional nature of the project and the efficiencies to be gained through a joint effort.

Mr. Lee was not convinced that this is the best approach for achieving the desired objective.

- ➡ Deputy Mayor Marshall moved to direct staff to formalize agreements with other cities on the funding, management, and governance of jointly developed Information Technology applications, and Dr. Davidson seconded the motion.

Mr. Degginger recommended that the interlocal agreement include provisions regarding the ownership and use of the technology to be developed and implemented.

- ➡ The motion to direct staff to formalize agreements with other cities on the funding, management, and governance of jointly developed Information Technology applications carried by a vote of 6-1, with Mr. Lee opposed.

At 8:02 p.m., Mayor Mosher declared recess to the regular session.

Myrna L. Basich
City Clerk

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